

OFFICE OF THE AUDITOR GENERAL

191.3

REPORT ON
STATE TELEPHONE CREDIT CARDS
ISSUANCE AND USE

AUGUST 1974

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August 30, 1974

The Honorable Speaker of the Assembly
The Honorable President of the Senate
The Honorable Members of the Senate and the
Assembly of the Legislature of California

Members:

Transmitted herewith is the Auditor General's report pertaining to the issuance and use of telephone credit cards as administered by the Communications Division of the Department of General Services. Telephone credit cards have been issued to an estimated 10,558 employees, or approximately 10 percent of the state's full-time work force.

Inadequate controls by the Communications Division over the issuance to and use by state employees of telephone credit cards permit their misuse and have resulted in excessive telephone costs.

Inadequate controls pertaining to credit card issuance and usage is evidenced by the fact that there is no central listing of those employees to whom telephone credit cards have been issued, no centralized recording and auditing of credit card issuance and usage, and no separate billings for credit card charges. Further, there are limited controls to preclude the usage of credit cards for the purpose of making personal telephone calls as well as limited controls to prevent the unauthorized loaning of credit cards among state personnel.

The cost of direct dial station-to-station calls and the cost of Automatic Telecommunications Switching System (ATSS) calls ranges from 16 percent to 85 percent less than the cost of credit card calls. Specific examples of credit card usage

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which resulted in excessive costs, were telephone calls placed where local direct dial calls could have been made and telephone calls placed directly from state ATSS telephones where the calls could have been completed without credit card usage.

Written criteria justifying the issuance and use of telephone credit cards is inadequate. State Administrative Manual regulations formulated by the Communications Division state "Credit cards will be issued to employees only if special billing requirements are involved." The Auditor General found no evidence where telephone credit cards were issued on the basis of a special billing requirement. Further, this manual contains no other criteria for the purpose of justifying when a telephone credit card is to be issued and used but instead leaves this decision to each state agency.

As a result of the Auditor General's findings, the Communications Division itself rescinded the authority for 236 credit cards, the total number of cards issued to employees in its division.

The Auditor General recognizes that there could be a valid need for the use of telephone credit cards, despite the fact that he found no such need. However, he has concluded that alternative methods to the use of telephone credit cards for placing calls exist in all instances, and such alternatives result in better controls and in costs equal to or less than the costs resulting from the use of credit cards.

The Auditor General has recommended that the Communications Division of the Department of General Services (1) establish adequate controls over the issuance to and use by state employees of telephone credit cards, and (2) establish adequate written criteria in order to justify the issuance and use of these credit cards. Further, the Auditor General has recommended that all credit cards currently issued to state employees which do not meet such criteria be canceled.

Respectfully submitted,



VINCENT THOMAS, Chairman
Joint Legislative Audit Committee

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SUMMARY OF FINDINGS,
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FINDINGS

Inadequate controls by the Communications Division of the Department of General Services over the issuance to and use by state employees of telephone credit cards permit their misuse and have resulted in excessive telephone costs. Further, written criteria justifying the issuance and use of telephone credit cards is inadequate.

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RECOMMENDATIONS

1. We recommend that the Communications Division of the Department of General Services establish adequate controls over the issuance to and use by state employees of telephone credit cards.
2. We recommend that the Communications Division establish adequate written criteria in order to justify the issuance to and use by state employees of telephone credit cards.
3. We recommend that all credit cards currently issued to state employees which do not meet such criteria be canceled.

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BENEFITS

Implementation of these recommendations will result in the most economical use of telephone credit cards.

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INTRODUCTION

In response to a legislative request, we have reviewed the operations of the Communications Division of the Department of General Services.

The Communications Division is responsible for providing telecommunications services to all state agencies to meet their operational requirements in an economical and efficient manner. Services are provided for radio, telephone, teletype, closed circuit television, data transmission facilities, and any special telecommunication facilities. Other than in the control over issuance and use of telephone credit cards, we found in general that the Communications Division is properly meeting its objectives.

Telephone credit cards are a means by which state employees may charge telephone calls to their organizational units by citing their credit card number to a telephone operator when placing a call.

The state also maintains a leased-line telephone system called the Automatic Telecommunications Switching System (ATSS), which provides low cost telephone service to most locations throughout the state. The following table compares telephone credit card charges in effect as of August 15, 1974 with charges for direct dial station-to-station calls and ATSS calls.

Comparative Three Minute
Telephone Charges From Sacramento

<u>Type of Call</u>	<u>San Francisco</u>	<u>Percent Less Than Credit Card</u>	<u>Los Angeles</u>	<u>Percent Less Than Credit Card</u>	<u>San Diego</u>	<u>Percent Less Than Credit Card</u>
Credit Card (Station-to- station)	\$0.80		\$1.50		\$1.55	
Direct Dial (Station-to- station)	0.55	31%	1.20	20%	1.30	16%
State ATSS Off Network ^{1/}	0.21	74	0.29	81	0.37	76
State ATSS On Network ^{2/}	0.15	81	0.23	85	0.33	79

^{1/} Calls from a state facility to another facility which is not on a network number.

^{2/} Calls from a state facility to another facility which is on a network number.

As can be seen from the above table, the cost of direct dial (station-to-station) calls and the cost of ATSS calls ranges from 16 percent to 85 percent less than the cost of credit card calls.

FINDINGS

INADEQUATE CONTROLS BY THE COMMUNICATIONS
DIVISION OF THE DEPARTMENT OF GENERAL
SERVICES OVER THE ISSUANCE TO AND USE BY
STATE EMPLOYEES OF TELEPHONE CREDIT CARDS
PERMIT THEIR MISUSE AND HAVE RESULTED IN
EXCESSIVE TELEPHONE COSTS. FURTHER, WRITTEN
CRITERIA JUSTIFYING THE ISSUANCE AND USE OF
TELEPHONE CREDIT CARDS IS INADEQUATE.

The Communications Division of the Department of General Services is responsible for assuring economic and efficient use of telephones by all state agencies. Present state administrative procedures used by the Communications Division have permitted telephone credit cards to be issued within all branches of state government and to personnel in virtually all levels of civil service classifications. This has been permitted under State Administrative Manual (SAM) regulations formulated by the Communications Division.

The need for credit cards by state employees is questionable since there are alternative methods of making telephone calls. Such alternative types of telephone calls are at least as economical as credit card calls and also result in greater control over the use of telephones in state business.

Alternative methods to the use of telephone credit cards include direct dial calls (station-to-station) and ATSS calls, each of which are less expensive than placing a call with telephone credit cards. Further, alternative methods also include third party telephone calls. Such operator assisted telephone calls are billed at the same rate as a credit card call.

Inadequate controls pertaining to credit card issuance and usage is evidenced by the fact that there is no centralized source showing which state employees have been issued telephone credit cards. Also, there is no centralized source for recording and auditing credit card issuance and usage, and credit card charges, while identified as such, are not billed separately from other telephone toll charges. Further, there are limited controls to preclude the usage of credit cards for the purpose of making personal telephone calls, as well as limited controls to prevent the unauthorized loaning of credit cards among state personnel. Therefore, the statewide magnitude of misuse of telephone credit cards and the resulting excessive costs cannot be determined.

Written criteria justifying the issuance and use of telephone credit cards is inadequate. Section 4537 of the SAM states, "Credit cards will be issued to employees only if special billing requirements are involved". We have found no evidence where telephone credit cards were issued on the basis of a special billing requirement. This manual contains no other criteria for the purpose of justifying when a telephone credit card is to be issued and used but instead leaves this decision to each state agency.

To determine the number of telephone credit cards that have been issued to state employees, we obtained the following information from Pacific Telephone and Telegraph Company and General Telephone Company relating to the number of cards issued to state employees.

<u>Pacific Telephone And Telegraph Company</u>	<u>Number of Telephone Credit Cards</u>
State Agencies/Departments (Estimated)	10,063
<u>General Telephone Company</u>	
State Agencies/Departments	<u>495</u>
Total Estimated Number of Credit Cards Issued to State Employees	<u>10,558</u>

To determine what criteria are being used by state agencies for the issuance and use of telephone credit cards, we surveyed telephone communication representatives of 236 state agencies and commissions requesting information on what standards and procedures are in effect for using telephone credit cards.

The survey showed that controls over the issuance to state employees of telephone credit cards are inadequate. The SAM regulations, which state that credit cards will be issued only if special billing requirements are involved, are being ignored in determining who is entitled to telephone credit cards. In response to the question, "What administrative or management standards are utilized to determine who is entitled to telephone credit cards?", a cross-section of state organizational units responded with a variety of answers.

Examples of the answers follow:

- "Superintendent's policy."
- "This is a 'barebones' determination...".
- "Based on need to make emergency after-hour calls."
(In this one agency, three telephone credit cards are being used by 34 employees.)
- "Whenever...these employees are away from their own telephone for an extended period of time they will call... for messages or problems."
- "Based on field experience, amount and frequency of travel, and operational needs as determined by local management."
- Only the appointees of the Governor and the administrative officer of the agency...are entitled to telephone credit cards."
- "Executive officer only." (The survey showed that a clerk-typist had a telephone credit card as well.)
- "There has to be a demonstrated need based on the nature of duties by (a) particular employee. For example, does employee have to make phone calls at night related to his job."

As a result of our survey, the Communications Division of the Department of General Services itself reassessed its requirement for telephone credit cards and rescinded the authority for 236 cards which comprised the total number

of cards issued in the division. In so doing, the Communications Division stated that the following alternatives are to be used by their employees in paying for telephone usage:

1. Calling their offices collect, where the charges are the same as for a credit card call.
2. Placing a call through a third-party charge (telephone operator assisted) by charging the call to their office which is the same charge as a credit card call.
3. Obtaining a travel advance prior to making a business trip or by filing a travel expense claim at the conclusion of the business trip to obtain reimbursement for telephone costs, which would be the same charge or a lesser charge than using a credit card.

At our request, a special listing also was prepared by the Pacific Telephone Company of all charges for the 5,072 credit cards issued to state employees working out of Sacramento for a one-month period. Such information was not available from a centralized source within the state government. Our analysis of the listing showed that the following types of credit card usage resulted in excessive costs:

- Telephone credit card calls were made when calling a distance of less than 40 miles; in some cases, organizational policy encourages this.

- Telephone credit card calls are made in areas where the ATSS is available for collect calls.
- Telephone credit card calls are made directly from state ATSS telephones where the calls could have been completed on such ATSS lines without credit card usage.

This special listing also disclosed that state employees were making calls both inside and outside the state with the use of credit cards in communities where the same call could be made as a local call at less cost.

We recognize that there could be a valid need for the use of telephone credit cards, despite the fact that our review did not indicate any such need. However, we conclude that the need for the issuance of 10,558 credit cards, representing approximately 10 percent of the state's total full-time work force, is highly questionable.

We further conclude that alternative methods to the use of telephone credit cards for placing calls exist in all instances, and such alternative methods result in better controls and in costs equal to or less than the costs resulting from the use of credit cards.

The lack of adequate controls over the issuance and use of telephone credit cards, and their resulting misuse and excessive costs for telephone usage, could be alleviated if the Communications Division of the Department of General Services were to assume its responsibilities for assuring economic and efficient use of telephones by all state agencies.

RECOMMENDATIONS

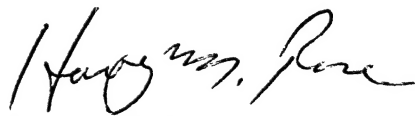
1. We recommend that the Communications Division of the Department of General Services establish adequate controls over the issuance to and use by state employees of telephone credit cards.
2. We recommend that the Communications Division establish adequate written criteria in order to justify the issuance to and use by state employees of telephone credit cards.
3. We recommend that all credit cards currently issued to state employees which do not meet such criteria be canceled.

BENEFITS

Implementation of these recommendations will result in the most economical use of telephone credit cards.

SUMMARY OF COMMENTS
OF THE DIRECTOR OF THE DEPARTMENT
OF GENERAL SERVICES AND HIS STAFF

The problems relating to the issuance and use of telephone credit cards by state employees, as identified by the Office of the Auditor General, warrants our review and consideration.



Harvey M. Rose
Auditor General

Date: August 15, 1974

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